

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 PA-02 L-03 H-02 OES-07 DOE-15
SOE-02 CEQ-01 INT-05 AGRE-00 /154 W
-----057560 261316Z /42

R 261130Z APR 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6160
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH

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USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

PASS TREAS AND FRB

E O 11652: NA
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK APR 16-22

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRAC ROSE
TO SF 1.96 IN CALM MARKET; GOLD PRICE FELL TO \$170
PER OUNCE. BANKS CONTINUE TO URGE CAUTION ON SHORT-
TERM US STOCK INVESTMENTS. SWISS DOMESTIC CREDIT
DECLINED IN FEB; NEW CONSTRUCTION LOANS ROSE. GOVT
FINANCIAL PROGRAM PASSED ONE HOUSE OF PARLIAMENT.
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BANKERS COUNTERED SOCIALIST BANK SECRECY INITIATIVE.
GOVT RELEASED DETAILS OF "ECONOMIC IMPULSE PROGRAM",
MOST FIRMS PLAN INCREASED INVESTMENTS. SWISS PROPOSAL
TO FIRESTONE IS UNDER STUDY. END SUMMARY.

2. FOREX AND GOLD: DOLLAR RATE AGAINST SF ROSE
STEADILY. DEALERS SAID DOLLAR IMPROVEMENT RESULTED

FROM REPORTS OF US: TIGHTER MONETARY POLICY, IMPROVED ECONOMIC OUTLOOK, PROGRESS ON ENERGY BILL, LOWER OIL IMPORTS, IMPROVED STOCK MARKET AND TREAS GOLD SALES. MARKET DISCOUNTED IMPORTANCE OF FIRST QUARTER US GNP DECLINE DUE TO COLD WEATHER AND COAL STRIKE. SNB FOREX HOLDINGS FELL SF 187 MILLION. GOLD PRICE FELL ABRUPTLY IN REACTION TO ANNOUNCED US GOLD AUCTIONS. DEALERS ATTRIBUTED PRICE FALL TO MARKET UNCERTAINTY RATHER THAN FEAR OF OVER-SUPPLY. EXPECT FURTHER PRICE DECLIN UNTIL MARKET DEMONSTRATES ABILITY TO ABSORB US AUCTIONS WHICH DEALERS ARE CONFIDENT SHOULD BE POSSIBLE. RATES FOLLOW:

	4/17 (OPEN)	4/21 (CLOSE)
SPOT DOLLAR	1.9010	1.9600
FORWARD DISCOUNTS (PCT PER ANNUM)		
ONE MONTH	7.17	6.54
TWO MONTHS	6.90	6.79
THREE MONTHS	6.81	6.56
SIX MONTHS	6.86	6.63
TWELVE MONTHS	6.41	6.22
SF/DM	92.73	94.37
GOLD	175.75	170.25

3. CAPITAL AND MONEY MARKETS:

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A) SWISS STOCK MARKET WAS QUIET; SKA SHARE INDEX SLIPPED TO 244.5. BROKERS HOPED DOLLAR IMPROVEMENT WOULD LEAD SWISS AUTHORITIES TO EARLY RELAXATION OF BAN ON FOREIGN NON-RESIDENT PURCHASES OF SWISS SHARES. AVERAGE YIELD CONFEDERATION BONDS REMAINED 3.38. NEW 15-YEAR LOAN ISSUES BY FOREIGN BORROWERS WERE ANNOUNCED AT 4 PCT.

B) AGEFI EDITORIAL SAID US STOCK MARKET IMPROVEMENT REFLECTED PRES CARTER'S DEMONSTRATION OF REAL CONCERN ABOUT INFLATION, DESPITE ANTI-INFLATION MEASURES ANNOUNCED. BANKS SAID US ECONOMIC BASICS HAVE NOT REALLY CHANGED; EXPECT MODEST FALL-OFF IN US GROWTH; NOTE CONCERN ABOUT US INTEREST AND INFLATION RATES; URGE SHORT-TERM INVESTORS EXERCISE CAUTION BUT ENCOURAGE US STOCK PURCHASES FOR LONG-TERM GROWTH.

C) SNB GEN MGR LANGUETIN SAID SWISS REJECT "PURE MONETARISM" BECAUSE SIZE SWISS ECONOMY AND ITS INTEGRATION IN WORLD ECONOMY REQUIRES FLEXIBLE MONETARY POLICY TO BUFFER IMPACT OF FOREIGN SHOCKS. SNB APR BULLETIN SAID END FEB MEASURES HAD CALMED SWISS FOREX MARKET;

BROKEN TREND RAPID SF APPRECIATION AND LARGE EXCHANGE
RATE FLUCTUATIONS. HOWEVER, DOWNWARD SF MOVEMENT
WOULD CAUSE PRICES TO RISE.

D) FOLLOWING MERRILL LYNCH PURCHASE OF WHITE
WELD AND MINORITY INTEREST IN CREDIT SUISSE WHITE
WELD, CREDIT SUISSE SAID ALL PARTIES ARE STUDYING

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POSSIBLE COOPERATION IN INTL CAPITAL MARKETS. IF
COOPERATION IMPRACTICAL, CS COULD EXERCISE OPTION TO
PURCHASE 30 PCT OF MERRILL LYNCH'S CREDIT SUISSE WHITE
WELD HOLDING; MEANWHILE, CS RETAINS CONTROL OVER
CSWW OPERATIONS.

E) SNB APR BULLETIN REPORTED SNB CONTINUES
TO HELP TEXTILE AND CLOTHING INDUSTRIES INSURE AGAINST
FOREX RISKS. TOTAL DOMESTIC CREDIT END FEB WAS 0.4
PCT BELOW END JAN BUT 7.2 PCT ABOVE END FEB 1977.
VOLUME MORTGAGE LOANS DECLINED WHILE CORPORATE
BORROWING ROSE. NEW CONSTRUCTION LOANS AT END FEB
WERE 25.7 PCT ABOVE END FEB 1977, UP 46.5 PCT FOR
SINGLE FAMILY DWELLINGS, UP 54.1 PCT FOR INDUSTRIAL

CONSTRUCTION.

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4. TAX REFORM: PARLIAMENT UPPER HOUSE PASSED FED FINANCIAL PACKAGE WITH 8 PCT VALUE ADDED TAX (VAT); SOCIALIST ABSTAINED. CANTONAL SHARE OF DIRECT TAX REVENUES WAS RAISED TO 33 PCT. DIRECT TAX LIABILITY BEGINS AT SF 15,000 ANNUAL INCOME; MAXIMUM RATE OF 13.5 PCT FOR INCOMES ABOVE SF 100,000. SOCIALIST PROPOSALS TO RAISE MINIMUM INCOME LEVEL SUBJECT TO DIRECT TAX AND INCREASE HIGHEST TAX RATE WERE REJECTED.

5. BANKING: SOCIALIST PARTY INITIATIVE ON BANK SECRECY AS STEP TO REDUCE POWER AND INFLUENCE OF BANKS ON SWISS ECONOMY WAS FOCUS OF ATTENTION AT SWISS BANK EMPLOYEES' CONFERENCE. BANKERS' ASSN PRES SARASIN DEFENDED IMPORTANCE OF BANKS TO ECONOMY BUT MINIMIZED BANKS POWER OVER ECONOMY AND GOVT. SAID BANKING SECTOR IS NOT OVER-SIZED WITH 4,800 BRANCHES AND 73,000 EMPLOYEES. FED BANKING COMMISSION EXERTS SUFFICIENT CONTROL OVER BANKS; MORE WOULD BE HARMFUL. INTL ROLE OF SWISS BANKS DOES NOT CAUSE SF APPRECIATION. BANKS HAVE REACHED LIMIT OF MEASURES THEY CAN ENDURE TO CURB SF APPRECIATION. AGEFI EDITORIAL SAID BANKS' INFLUENCE STEMS FROM CONFIDENCE GIVEN BY DEPOSITORS. ATTACKED SOCIALIST INITIATIVE FOR SEEKING TO DISCLOSE AND THEREBY BREAK UP HIDDEN RESERVES WHICH ARE VITAL TO BANKS' CREDIT POLICY.

6. INVESTMENT PLANS: RESULTS OF UBS SURVEY OF 400 FIRMS' INVESTMENT PLANS FOR PERIOD 1978 TO 1980 INDICATED 38 PERCENT PLAN INCREASE COMPARED TO PERIOD 1975 TO 1977; 22 PCT PLAN DECREASE; 20 PCT WILL MAINTAIN CURRENT LEVEL. OF FIRMS EMPLOYING OVER 1,000 PERSONS, 52 PCT PLAN INCREASE INVESTMENTS; 7 PCT PLAN REDUCTIONS. INCREASED INVESTMENTS ARE UNCLASSIFIED

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PLANNED PRIMARILY IN SERVICES OR CAPITAL GOODS SECTORS. INVESTMENTS REPRESENT RATIONALIZATION PLANS FOR 80 PCT OF FIRMS.

7. "IMPULSE" PROGRAM: GOVT PUBLISHED DETAILS OF PROPOSED SF 70 MILLION FOUR-YEAR "IMPULSE PROGRAM" TO STIMULATE INDUSTRIAL R AND D. PLAN STRESSES

COMBINING TRADITIONAL SWISS TECHNICAL PRECISION WITH NEW MICROPROCESSING TECHNIQUES TO CUT PRODUCTION COSTS PARTICULARLY THROUGH NEW TRAINING METHODS IN TECHNICAL HIGH SCHOOLS. EMPHASIS IS ON DEVELOPMENT OF STANDARDIZED ELECTRONIC WATCH COMPONENTS; ADAPTING QUALITY CONTROL SYSTEMS FOR SMALL FIRMS; ESTABLISHING DATA BANKS FOR BROAD USE; DEVELOPING IMPROVED INSULATING METHODS FOR BUILDING INDUSTRY; ESTABLISHING ECOLOGICAL INVENTORY OF EXISTING SWISS POLLUTION LEVELS. INCREASED SUPPORT FOR NATL TOURIST OFFICE AND OFFICE FOR TRADE EXPANSION IS ALSO PLANNED.

8. FIRESTONE: SWISS DELEGATION RETURNED FROM US EXPRESING SATISFACTION WITH TALKS AT AKRON. SWISS PROPOSED CUTTING PRODUCTION COSTS BY INTERNAL RE-STRUCTURING AND INCREASING PRODUCTION. BASEL-LAND OFFICIALS SAID CANTONAL GOVT COULD OFFER FISCAL ADVANTAGES. SAID FIRESTONE DOES NOT INTEND SELL ITS PLANT AND WOULD NOT ACCEPT MAJORITY SWISS PARTICIPATION. SWISS OFFER IS UNDER STUDY. WARNER

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